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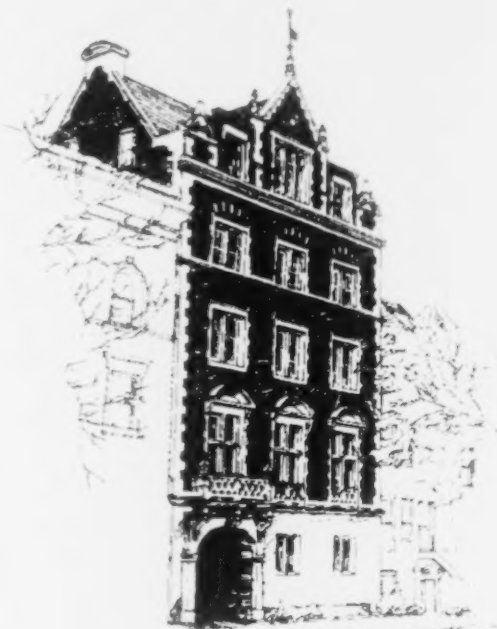
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ABSTRACT

This report presents findings of the third annual survey of state programs that link funding to campus performance, either in the form of performance budgeting or performance funding. The survey found that 30 states now have at least one of these two types of programs, up from 26 states the previous year, although some earlier programs have been abandoned. Nine states have both performance budgeting and performance funding, an increase of one. Sixteen states have performance funding, an increase of three; the net result of six new initiatives and three dropped programs. Additionally, 23 states (up from 21) have performance budgeting, the total representing six new initiatives and four dropped programs. The mixed findings suggest that performance budgeting or funding will not replace traditional budgeting for public colleges and universities, although there is a growing belief in state capitols that performance should be related to allocation of resources to public education. Following the introduction and a description of the survey program, individual sections analyze findings on performance budgeting and performance funding, performance budgeting, performance funding, and performance reporting. These sections are followed by a discussion of future trends and a brief conclusion. The survey is appended. (DB)

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**Performance Funding and Budgeting:
Popularity and Volatility —
The Third Annual Survey**



Joseph C. Burke
Director
and
Shahpar Modarresi
Research Associate
Public Higher Education Program

**The
Nelson A.
Rockefeller
Institute
of
Government**

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Joseph C. Burke
Director

Shahpar Modarresi
Research Associate

Public Higher Education Program

The Nelson A. Rockefeller Institute of Government
State University of New York
Albany, New York

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Address inquiries to:

Public Higher Education Program

The Nelson A. Rockefeller Institute of Government

411 State Street

Albany, New York 12203-1003

Tel.: (518) 443-5835

FAX: (518) 443-5845

E-mail: burkejo@rockinst.org

WWW: <http://rockinst.org/higheduc.htm>

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Joseph C. Burke and Shahpar Modarresi

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Performance Funding and Budgeting: Popularity and Volatility The Third Annual Survey

Joseph C. Burke and Shahpar Modarresi

§ Introduction

The Third Annual Survey of state programs linking funding to campus performance shows their popularity but also their volatility. This budgeting practice takes two forms: performance budgeting and performance funding. The relationship of resources to results in performance funding is direct, automatic, and formulaic. The connection in performance budgeting is indirect, discretionary, and uncertain. Despite significant increases in the number of states with performance funding and budgeting, both programs exhibit some instability. More new programs appeared, but some existing efforts were abandoned. The Third Annual Survey confirms previous conclusions about performance funding. This approach always appeared easier to adopt than to implement, and simpler to start than to sustain. Clearly, the desirability of performance funding in theory is matched by its difficulty in practice. The surprise in the Third Survey is that performance budgeting for the first time also shows some instability.

The Survey found that 30 states (60%) now have at least one of these two programs, up from 26 (52%) in last year's poll. Nine states have both performance budgeting and performance funding, just one more than in the previous year. This small increase runs counter to the prediction in the 1998 Survey report of a possible trend of adopting both programs. Sixteen states (32%) now have performance funding, a rise from 13 (26%) in 1998 (Table 1). The results reveal six new and three dropped programs since last year's survey. The respondents in 1999 also indicate that 23 states (46%) currently have performance budgeting, an increase from the 21 (42%) in 1998 (Table 2). They include six new initiatives but a loss of four programs listed last year. Although the first two surveys reported losses in performance funding programs, losses represent a new phenomenon for performance budgeting.

— These findings do not suggest that performance budgeting or funding will replace traditional budgeting for public colleges or universities, based largely on current costs, student enrollment, and inflationary increase. Costs, enrollments, and inflation — which are workload measures — will probably remain the dominant factors in state budgeting for public higher education. The increased use of performance budgeting and funding does demonstrate the growing belief in state capitals — but not on public campuses — that performance should somehow count in allocating resources to public higher education.

Table 1. Performance Funding

Surveys	Number (Percentage)	States
First April, 1997	10 states (20%)	Colorado, Connecticut, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, Tennessee, Washington
Second June, 1998	13 states (26%)	Colorado, Connecticut, Florida, Illinois, Indiana, Louisiana, Missouri, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Washington
Third June, 1999	16 states (32%)	California, Connecticut, Florida, Illinois, Kansas, Louisiana, Missouri, New Jersey, New York, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Virginia

Table 2. Performance Funding

Surveys	Number (Percentage)	States
First April, 1997	10 states (20%)	Colorado, Connecticut, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, Tennessee, Washington
Second June, 1998	13 states (26%)	Colorado, Connecticut, Florida, Illinois, Indiana, Louisiana, Missouri, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Washington
Third June, 1999	16 states (32%)	California*, Connecticut, Florida, Illinois*, Kansas, Louisiana, Missouri, New Jersey, New York**, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Virginia

*2 year colleges only

**SUNY System only

§ The Surveys

Staff of the Higher Education Program at the Rockefeller Institute of Government have conducted telephone surveys of State Higher Education Finance Officers (SHEFOs) or their designees for the last three years. The First Survey occurred from April 17 to 28, 1997 (Burke & Serban, 1997). Staff delayed the Second Survey until June 4 to 17, 1998 to allow more states to complete their regular legislative sessions (Burke & Serban, 1998a). Interviews for the Third Survey extended from June 7 through June 15, 1999. Each of these polls received responses from all fifty states. All of the surveys questioned finance officers on the status and prospects of performance funding and performance budgeting in their states (See Appendix for the 1999 Questionnaire).

The interviews began with definitions of performance funding and performance budgeting to distinguish the two approaches. The questions asked whether a state currently had performance funding and/or performance budgeting. If the state had one or both of these programs, the interviewer requested that the finance officer predict the prospects for continuing the program or programs in the next five years. If no program existed, the survey asked about the likelihood of adopting the practice. The finance officers also indicated the adoption date of the programs. Some of the replies on dates represent estimates, where programs in performance budgeting emerged over

time. The interviewer also asked whether a state had annual or periodic reports on the performance of public colleges and universities.

The SHEFOs or designees noted whether legislation mandated performance funding and performance budgeting and prescribed the indicators. In addition, the finance officers identified the primary initiator of performance funding or budgeting from the choices of governor, legislature, coordinating board, or other. The 1999 Survey added the additional option of university or college systems. The 1998 Survey started a series of questions intended to clarify the relationship of performance budgeting to the budgeting process. The 1999 version added two new questions that sought to identify the link between state funding and campus performance.

§ Performance Budgeting and Performance Funding

Performance funding or budgeting adds institutional performance to the traditional considerations of current costs, student enrollments, and inflationary increases. These input factors ignore the quantity and quality of graduates and the range and benefits of services to states and society. States had previously provided front-end funding to encourage desired campus activities. Performance funding and budgeting differ from these earlier efforts by allocating resources for achieved rather than promised results. This practice shifts somewhat the budget question from what states should do for their campuses toward what campuses do for their states and their students.

The authors of several earlier surveys did not distinguish performance funding from performance budgeting. They spoke of the number of states using institutional performance on designated indicators in budgeting for public colleges and universities (McKeown 1996; Christal, 1998). Although those earlier surveys called attention to a generic direction in budgeting, they failed to identify how state governments, coordinating boards, or college and university systems used campus achievements on performance indicators in the budgeting process. Was the link between resources and results loose or tight? Did performance have a direct impact or only an indirect influence on state allocations? And were the funding incentives or disincentives automatic or discretionary?

The Annual Surveys sought to distinguish performance funding from performance budgeting by using the following definitions:

- **Performance Funding** ties specified state funding directly and tightly to the performance of public campuses on individual indicators.
- **Performance Budgeting** allows governors, legislators, and coordinating or system boards to consider reports of campus achievements on performance indicators as one factor in determining campus allocations.

In performance funding, the relationship between funding and performance is automatic and formulaic. If a campus achieves a prescribed target or improvement level on defined indicators, it receives a designated amount or percent of performance funding. In performance budgeting, the possibility of additional funding because of good or improved performance depends solely on the judgment of state, coordinating, or system officials. Performance funding ties state funding directly and tightly to performance, while performance budgeting links state budgets indirectly and loosely to results. In performance funding, the tie between results and resources is clear but inflexible. In performance budgeting, the link is flexible but unclear.

Despite the effort to clarify these two approaches, the existence of performance budgeting often remains difficult to determine, especially in states where the program is not mandated in legislation,

but is adopted by coordinating or system boards. This difficulty explains two of the instances in this survey in which respondents concluded that states listed last year as having performance budgeting did not have the program.

The Second and Third Surveys included six questions to identify the involvement of performance budgeting in the budgeting process. These questions probed the use of performance reports in budget preparation with the governor and legislature, in the executive budget, in the appropriations act and related budget documents, and in the campus allocations from coordinating or system boards. Another question asked finance officers to assess the actual effect of performance budgeting on the funding of public colleges and universities. The 1999 Survey added two more questions: Do coordinating or system boards consider performance in the allocation of resources to colleges or universities? And does the performance budgeting program earmark a dollar figure or percent of state support for allocation to colleges and universities? Perhaps in part because of these questions, the finance officers exhibited this year a better understanding of the concept of performance budgeting and its differences from performance funding.

§ Performance Budgeting

From April 1997 through June 1999, the number of states with performance budgeting (Table 2) rose from 16 (32%) to 23 (46%) – a 44 percent increase in just two years. Six new programs appeared in the 1999 Survey. They included Connecticut, Massachusetts, Michigan, New Jersey, New Mexico, and Virginia. Previously, performance budgeting displayed not only growth but also stability. Every one of the states with the program in 1997 continued it in 1998. This year's Survey saw a drop in stability, as respondents cited a loss of programs in Colorado, Mississippi, Rhode Island, and South Dakota. Several reasons explain this decline. New legislation in 1999 moved Colorado from performance budgeting back to performance reporting. Rhode Island failed to implement a program because of lack of funding. A new SHEFO in Mississippi concluded that higher education does not have performance budgeting. (It does have this program for some state agencies and will likely extend it to public colleges and universities in the future.) The SHEFO from South Dakota says that the state should not have been listed last year as having performance budgeting. The last two responses illustrate the difficulties of identifying programs in performance budgeting, because of the ambiguous relationship between performance and funding.

The 1999 Survey shows the continuing popularity of performance budgeting. Six new programs appeared, compared to five that emerged in the 1998 Survey. The addition of six programs in the 1999 Survey represents a large increase in a single year. But the loss of four programs represents a significant finding this year, although only two involved programs actually dropped. It suggests that performance budgeting has joined performance funding in exhibiting both popularity and volatility. Despite this new instability, nearly half of the states currently link state funding indirectly to the performance of public colleges and universities. Only time will tell whether the popularity of performance budgeting persists and whether the instability continues; however, the method and source of initiation of these programs can provide some clues.

Legislative mandates seem bad for the long-term health of both performance budgeting and performance funding. Legislation mandated performance budgeting in 11 (48%) of the 23 states (Table 3). It prescribed the indicators in only one. The two states that actually dropped the program in this year's Survey – Colorado and Mississippi – had mandates. On the other hand, five of the six new programs came from coordinating and system boards without legislation. A study of persistence in performance funding suggests that legislative mandates represent a significant characteristic in distinguishing unstable from stable programs (Burke & Modarresi, 1999).

Adoption by coordinating or system boards allows more campus collaboration in program development and implementation. This involvement is essential for campus acceptance – a critical element in program persistence. (Campus acceptance does not signify campus approval.) The new programs indicate that performance budgeting is moving away from legislative mandates, which may also suggest more stability for this program in the future.

Non-mandated programs do not necessarily mean voluntary actions. Often coordinating or system boards adopted performance budgeting and funding to avoid an impending state mandate. The responses to the survey question on what group initiated the push for performance funding suggests this motivation. The groups cited as pressing for performance budgeting split fairly evenly among coordinating boards, legislators, and governors (Table 3). Some – such as those New Jersey and Virginia – represent proffered bargains of more accountability for more autonomy. They trade increased responsibility for performance and productivity for more flexibility over budgets and tuition revenues.

The prospects of performance budgeting for public campuses appear linked to the growing interest in mandating such programs for state agencies. In both 1997 and 1998, the *Fiscal Survey of the States* calls this practice “the most significant trend in state budgeting” (National Association of State Budget Officers, 1997, 1998). Generic mandates developed for state agencies seldom suit the unique characteristics of colleges and universities. The 1999 Survey shows that stable programs are less likely to come from state mandates. Coordinating boards in several states seem to have initiated performance budgeting as a preemptive strike to avoid state mandates – especially those designed to cover all state agencies. Meanwhile, state mandates for government agencies are becoming more careful and cautious. The *Fiscal Survey of the States*, December 1998, commented on this development:

States often proceed incrementally by establishing a strategic plan, assessing goals and objectives for agencies and programs, and developing performance measures. Many states have been working on some type of performance budgeting for several years, recognizing that systemic change requires a multiyear commitment (p. 17).

Whether careful or not, mandates for state agencies are likely to spur the growth of performance budgeting for public colleges and universities. Their incremental implementation also makes the identification of performance budgeting for higher education more difficult.

Table 3. Characteristics of Performance Budgeting

State	Adoption Year	Mandate	Indicators	Initiation
Connecticut	1999	No	No	Coordinating Board
Florida	1994	Yes	No	Governor, Legislature
Georgia	1993	Yes	No	Governor
Hawaii	1975	Yes	No	Legislature
Idaho	1996	Yes	No	Legislature
Illinois	1984	No	No	Coordinating Board
Indiana	1988	No	No	Coordinating Board
Iowa	1996	Yes	No	Governor
Kansas	1995	No	No	Governor
Louisiana	1997	Yes	No	Legislature
Maine	1998	Yes	No	Governor
Massachusetts	1999	No	No	Coordinating Board
Michigan	1999	No	No	Governor
Nebraska	1991	No	No	Coordinating Board
New Jersey	1999	No	No	Governor
New Mexico	1999	Yes	No	Legislature
North Carolina	1996	Yes	No	Legislature
Oklahoma	1991	No	No	Coordinating Board
Oregon	1998	No	No	Coordinating Board
Texas	1991	Yes	Yes	Legislature
Virginia	1999	No	No	Coordinating Board
Washington	1988	No	No	Governor, Legislature, Coordinating Board
West Virginia	1995	Yes	No	Legislature

Despite recent instability, the future continuation of performance budgeting seems secure. Respondents view 14 of the 23 states with programs as highly likely and six as likely, to continue them (Table 4). Those from Georgia and Iowa say they cannot predict the future of performance budgeting because of new governors. Virginia represents a unique case. Its Council of Higher Education has adopted a policy that has elements of both performance budgeting and performance funding. Its respondent calls the continuance of both programs unpredictable. In Virginia, the state currently funds its campuses directly, which means that implementation of performance budgeting and funding would require legislation. Last year, SHEFOs or their designees called continuance of the performance budgeting highly likely in 11 states, likely in nine, and unpredictable in one.

Table 4. Likelihood of Continuing Performance Budgeting For Five Years

Likelihood	Number/ Percentage	State
Highly Likely	14 (61%)	Idaho, Illinois, Kansas, Louisiana, Maine, Massachusetts, Nebraska, New Jersey, New Mexico, Oklahoma, Oregon, Texas, Washington, West Virginia
Likely	6 (26%)	Connecticut, Florida, Hawaii, Indiana, Michigan, North Carolina
Unlikely	0	
Highly Unlikely	0	
Cannot Predict	3 (13%)	Georgia, Iowa, Virginia

The prospects for future adoption of performance budgeting also appear good, although slightly less bright than last year (Table 5). One state is considered highly likely and ten likely to adopt performance budgeting in the next five years. Conversely, one is highly unlikely and seven unlikely to have the program. Eight state respondents could not predict. Last year, four states appeared highly likely and seven likely to adopt performance budgeting, while none appeared highly unlikely and only six unlikely. A dozen respondents reported they could not predict. Some new initiatives in performance budgeting appear probable, although opposition seems to have stiffened. The impetus for performance budgeting will probably come from the growing trend of mandating the program for state agencies. In response, public higher education will have to develop its own program or submit to a generic mandate for state agencies.

Table 5. Likelihood of Adopting Performance Budgeting in Five Years

Likelihood	Number/ Percentage	State
Highly Likely	1 (4%)	Colorado
Likely	10 (37%)	Alaska, Arizona, Kentucky, Maryland, Mississippi, Nevada, North Dakota, Rhode Island, Utah, Wyoming
Unlikely	7 (26%)	Alabama, California, Delaware, Minnesota, Montana, New Hampshire, South Carolina
Highly Unlikely	1 (4%)	Ohio
Cannot Predict	8 (30%)	Arkansas, Missouri, New York, Pennsylvania, South Dakota, Tennessee, Vermont, Wisconsin

The real problem with performance budgeting is not a lack of popularity but a lack of clarity. The 1998 Survey included six additional questions to clarify the link of performance budgeting to the budget process and to assess its actual impact on funding. The interviewer asked respondents from states with recently adopted programs but without implemented procedures to answer the questions based on the intent of the policy or legislation. This year 65 percent of the programs have reports of campus performance submitted to the governor's budget office, and the same percent to the legislature, as part of the budget preparation process. These percentages are slightly lower than last year. Seventy-four percent had higher education officials discuss these reports with executive branch officers and 78 percent with legislators in budget hearings – again somewhat lower than in 1998. On the other hand, respondents said that 61 percent of the executive budgets normally

referred to the indicators or performance reports as compared to just over half in the 1998 Survey. Last year, SHEFOs said that 43 percent of the appropriations acts or related budget documents cited performance indicators or reports. This year that figure fell to 35 percent.

These answers illustrate the ambiguity of many programs in performance budgeting and indicate the need for more specificity in the process. Incorporating the above procedures into performance budgeting could remove some of its ambiguity by clarifying its connection to budgeting in both mandated and non-mandated programs. Both of them could require submission of performance reports from campuses on designated indicators to governors' budget offices and to appropriate legislative committees, such as finance and education. They could stipulate that higher education officials discuss these reports with executive officials and with legislators in budget hearings. Mandated programs could also require reference to performance reports in executive budgets and in the appropriations acts and related budget documents. These steps could help close and make visible the link in performance budgeting between budgeting and performance.

Another question tried to identify the actual impact of performance budgeting on the funding of public colleges and universities. It asked finance officers about the effect of performance budgeting on funding. In 1998, 33 percent of the replies cited large or moderate effect; 29 percent little or no effect; and 39 percent could not determine the effect. This year 35 percent reported a large or moderate effect; 39 percent little or no effect; and 26 percent could not determine the effect. Only one reply indicated a large effect and just one indicated no effect. That some respondents could not determine the effect does not necessarily suggest a vague connection of performance to funding. Six states adopted the program since the last survey, and several had not yet implemented their program, which led some finance officers to indicate they could not determine the effect. Nonetheless, the answers to this question do underscore the vague connection between funding and results in performance budgeting.

The 1999 Survey added two questions. One queried whether coordinating and system officials considered institutional performance in deciding campus allocations. Fifty-two percent of the respondents said no, 35 percent yes, and 13 percent did not answer the question. Several states with performance budgeting also require direct appropriations to campuses, which leaves no discretion on allocations to coordinating boards or agencies. Where permissible, performance funding policies should require coordinating and system boards to consider performance in their allocations to campuses.

A second question asked whether the performance funding program earmarked a dollar figure or a percent of state support to campus performance. Specifying a percent of state support for performance could correct a major problem with performance budgeting – the lack of a clear connection between resources and results. A previous study suggested that such a provision would allow performance budgeting to achieve an advantage of performance funding while avoiding its major disadvantage (Burke & Serban, 1998b). The specific sum or percentage would provide the tangible incentive for improved performance offered by performance funding, without the tight tie to each indicator. This approach would allow discretion to governors and legislators or coordinating or system boards in assessing campus circumstances when distributing performance monies.

The 1999 Survey asked whether performance budgeting included such a specification. The responses reveal that only Oregon and West Virginia currently earmark a specific percent of state support for performance budgeting. Oregon started with half a percent and intends to move to four percent. West Virginia uses 3.25 percent. Although Connecticut's program currently does not have this feature, its coordinating board is proposing a sum not to exceed five percent for its plan on performance budgeting. Specifying an amount or percentage for allocation in performance budgeting would clarify the connection between funding and performance.

§ Performance Funding

Performance funding shows increasing popularity coupled with continued volatility. Programs now exist in 16 states compared to 10 in 1997, a 38 percent growth in just two years (Table 1). These increases conceal sizable shifts. Eleven new programs have started since the 1997 Survey, but five have disappeared. In addition, Arkansas had dropped performance funding before the 1997 Survey. The 1998 results noted new programs in Illinois, Indiana, Louisiana, Oklahoma, and South Dakota and dropped initiatives in Kentucky and Minnesota. The 1999 Survey shows programs started in California, Kansas, New Jersey, New York, Texas, and Virginia. It also reveals that others ended in Colorado, Indiana, and Washington. Shifts in governors, legislators, and state priorities, and continued opposition from campuses pose constant threats to controversial programs such as performance funding.

Demands for increased accountability and productivity explain the popularity of performance funding in state capitals. But dangers of diminished funding for some campuses demonstrate their vulnerability. Legislators may endorse performance funding for public higher education, but lose their enthusiasm when the programs threaten the budgets of campuses in their home districts. The results of the 1999 Survey confirm the conclusions in last year's report. The desirability of performance funding is matched by its difficulty in practice. It is easier to adopt than to implement and easier to start than to sustain. In performance funding, as in most policies, the attraction is often abstract, while the devil is in the details of design and implementation.

The SHEFOs' predictions last year of the states likely to adopt performance funding were accurate. They correctly called New Jersey and New York as highly likely to adopt the program. The other two states labeled highly likely – Massachusetts and Mississippi – remain likely to adopt in the future. Of the eight states called likely to adopt, Texas and Virginia did launch the program. Last year's survey predicted the abandonment of the initial effort at performance funding in Colorado, but the losses of the small program in Indiana and the more comprehensive initiative in Washington came as a surprise. Colorado, with a new governor, is reviewing its plan for accountability and is considered likely to re-institute performance funding in the future. In Indiana, the anticipated adoption of a small program with two indicators failed to occur. Washington represents a classic case where a period set aside for planning revealed the difficulties of program design and allowed the mustering of campus opposition. Many of the new programs, such as the one in Washington, permit a period for program design before implementation. Such delays are desirable but dangerous. It is easier to end a program under development than to stop one once implemented.

The new programs in California, New Jersey, New York, Kansas, Texas, and Virginia exhibit continuity along with some new features that may represent future trends. Legislation mandated performance funding in seven of 16 current programs and prescribed the indicators in two (Table 6). In the five programs abandoned since the 1997 Survey, legislation mandated four and coordinating boards initiated one. Initiation by coordinating boards cannot guarantee the survival of performance funding, but longevity appears much less likely without their leadership. Coordinating boards represent both government and campus interests, which gives them a foot in both camps. They offer the best hope of gaining the cooperation of state and campus leaders, which is essential to the survival and success of performance funding. A recent study of continued and abandoned programs in performance funding concludes that initiation by coordinating boards rather than legislative mandate is a significant characteristic of stable programs (Burke & Modarresi, 1999). It also identifies prescribed indicators as a distinguishing feature of unstable programs. The new programs adopted since the last survey seem to have learned this lesson.

Legislative mandates began seven of the 13 programs in existence in 1998 and prescribed the indicators in two of them (Table 6). In contrast, statutes mandated only two of the six new programs

reported in 1999 and prescribed the indicators in none of them. Moreover, mandates started two of the three dropped programs and prescribed the indicators in two of them. The 1999 Survey shows that two systems began programs on their own.

Initiation and adoption by college and university systems without legislative or coordinating board action is an innovation that may become a trend. The Community College System in California and the State University of New York System voluntarily launched their own programs. In addition, a recent report from a task force appointed by the mayor of New York City recently recommended that the city university system adopt performance based budgeting. The 1999 Survey suggests that action for initiating performance funding is apparently moving from mandates by governors and legislatures to adoption by coordinating boards and university systems. It may also indicate the disappearance in new initiatives of the past practice of prescribing indicators.

The prime movers of the new programs of performance funding present a more complicated picture (Table 6). The impetus in California came from the Community College System, in New York from the State University System, and in Virginia from its coordinating council. The SHEFO from New Jersey says the governor encouraged performance funding, although the coordinating board adopted it without legislation. The legislature initiated the program in Texas and the governor and legislature in Kansas. The differences in prime movers reflect differences in the motives for each program. In California, the system board apparently wanted to improve the accountability and the performance of community colleges. In New York, State University of New York officials also desired to improve accountability and performance. New Jersey and Virginia appeared to trade added accountability for increased autonomy. Performance funding in Kansas came as part of a new plan to bring all public higher education, including the community colleges, under the board of regents. The legislature pushed for performance funding in Texas to encourage improved programs in remediation. Although the motives and movers differed, all of these initiatives saw funding performance as a way to achieve purposes, address problems, and assure campus responses.

Table 6. Characteristics of Performance Funding

State	Adoption Year	Mandate	Indicators	Initiation
California	1998	No	No	Community College System
Connecticut	1985	Yes	No	Coordinating Board
Florida	1994	Yes	Yes	Governor, Legislature
Illinois	1998	No	No	Coordinating Board
Kansas	1999	Yes	No	Governor, Legislature
Louisiana	1997	Yes	No	Coordinating Board
Missouri	1991	No	No	Coordinating Board
New Jersey	1999	No	No	Governor
New York	1999	No	No	University System
Ohio	1995	Yes	No	Governor, Legislature, Coordinating Board
Oklahoma	1997	No	No	Coordinating Board
South Carolina	1996	Yes	Yes	Legislature
South Dakota	1997	No	No	Governor, Legislature, Coordinating Board
Tennessee	1979	No	No	Coordinating Board
Texas	1999	Yes	No	Legislature
Virginia	1999	No	No	Coordinating Board

The new programs in performance funding continue the trend that appeared last year of less ambitious plans that are more acceptable to campuses. Most of them seem to seek small improvements in institutional performance rather than the systemic reforms in public higher education that characterized many of the early initiatives in performance funding. The programs in Arkansas, Colorado, Kentucky, South Carolina, and the initial effort in Florida sought to change higher education and not just improve campus performance (Burke & Serban, 1998b). Most of the new programs are less comprehensive and more cautious. Unlike earlier programs, nearly all allow extended periods for design and provide for phased implementation. Most have fewer indicators than earlier programs of performance funding. They do continue the use of traditional measures, such as retention, graduation, and job placement rates. All but Virginia appear to avoid the controversial standardized tests for general education and academic majors, while accepting professional licensure exams. Some include the dollar volume of sponsored search and faculty teaching loads. Those in New York and Virginia are more comprehensive with more indicators and more intent to produce significant reforms. The California program, similar to the one launched last year in Illinois, involves only community colleges. The Texas program deals exclusively with successful remediation for academically deficient and economically disadvantaged students. All of the new plans provide limited funding, which runs from about two to five percent of state operating support.

The new programs in both performance budgeting and performance funding appear to have learned the lessons from failed programs. A recent study compares the survey responses from state, coordinating board, system, and campus leaders in Missouri and Tennessee with those from the Arkansas, Colorado, Kentucky, and Minnesota that dropped performance funding. The study identifies the characteristics that distinguish stable from unstable programs:

- Important input by state coordinating agencies,
- Sufficient time for planning and implementation,
- A limited number of indicators, and
- Restricted but substantial funding (Burke & Modarresi, 1999).

The new programs in performance funding exhibit several of these characteristics.

The three surveys of SHEFOs and their alternates indicate that performance funding remains a regional phenomenon centered mostly in the South and Midwest. Southern (4) and Midwestern (3) states dominated the list of performance funding programs in the First Survey in 1997. The Northeast had only the program in Connecticut and the West had examples in only Colorado and Washington. By 1999, the South had seven and the Midwest five of the 16 programs. The number in the Northeast had jumped to three, but had fallen to one in the West. Performance budgeting had a broader geographical spread. In 1997, the South had seven, the Midwest five, and the West four of these programs, although the Northeast had none. In the 1999 Survey, the South showed eight, the Midwest six, the West five, and the Northeast four.

Performance funding in 1997 had demographic and economic as well as geographical limitations. It seemed largely confined to less populous and poorer states, with limited expenditures for higher education. In that year, Edward Hines defined "megastates" as having "relatively large populations, well-developed business bases, and large higher education systems." He identified 15 states in that category (Hines, 1997). Only Florida and Ohio of the 10 states with performance funding in 1997 fit that definition. By the 1999 Survey, seven of the megastates had performance funding with the addition of California, Texas, New York, New Jersey, and Virginia. In 1997, performance budgeting existed in six megastates: Texas, Illinois, Indiana, Florida, North Carolina,

and Georgia. The 1999 Survey showed an increase to ten, with the addition of Michigan, New Jersey, Virginia, and Washington.

Performance funding appears secure in the states that have it, with 12 considered highly likely and three likely to continue the program (Table 7). Virginia is called unpredictable because of the need for legislation to change the practice of direct allocations to campuses. Last year, SHEFOs or their designees saw only eight states as highly likely, four as likely, and one as highly unlikely to continue the program. On the other hand, strong opposition may limit the prospects for expansion of performance funding. Respondents from six states call its adoption highly unlikely and 12 unlikely (Table 8). Seven see its future as unpredictable. No SHEFO predicts its adoption as highly likely, although nine think it likely. Last year, four states appeared highly likely and eight likely to adopt performance funding in the next five years. The finance officers in 1998 considered six states as highly unlikely and nine as unlikely to adopt the program. SHEFOs or their designees from ten states said that they could not predict the likelihood of future adoption of performance funding.

Last year, many of the respondents who considered the future of performance funding as unlikely or highly unlikely cited the South Carolina program as a reason. They criticized its alleged "100 percent" funding and its lengthy list of 37 indicators. This year, no one mentioned the South Carolina program. A possible reason is that the coordinating commission in that state restricted the funding to 1.75 percent of an institution's base budget, plus half of any additional state allocations. Campuses had to put 1.75 percent of their budgets into a "performance incentive pool" and a quarter of a percent into a "performance improvement pool." They could then earn or lose up to five percent of their state allocations based on their performance. Aside from the 37 indicators, the South Carolina program has moved from the fringe toward the mainstream of performance funding.

An interesting finding in the 1999 Survey is that Colorado and Kentucky, which dropped performance funding, are now considered likely to readopt it in the next five years. The respondent from Arkansas, which also abandoned the program, now says future adoption has changed from unlikely to unpredictable, because some commission members and legislators desire to develop a program. Indiana, which appeared to have it last year, and Minnesota, which ended it in 1998, are now considered unlikely to reinstate performance funding. The move of Kentucky from highly unlikely and Arkansas from unlikely to the category of likely to accept performance funding is especially interesting. The current governors in both states had a hand in eliminating the initial efforts at performance funding.

Table 7. Likelihood of Continuing Performance Funding for Five Years

Likelihood	Number/ Percentage	State
Highly Likely	12 (75%)	Connecticut, Illinois, Kansas, Missouri, New Jersey, New York, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas
Likely	3 (19%)	California, Florida, Louisiana
Unlikely	0	
Highly Unlikely	0	
Cannot Predict	1 (6%)	Virginia

Table 8. Likelihood of Adopting Performance Funding in Five Years

Likelihood	Number/ Percentage	State
Highly Likely	0	
Likely	9 (26%)	Colorado, Kentucky, Maryland, Massachusetts, Mississippi, Nevada, New Mexico, Utah, Wyoming
Unlikely	12 (35%)	Alabama, Arizona, Georgia, Hawaii, Idaho, Indiana, Maine, Minnesota, Montana, North Dakota, Pennsylvania, West Virginia
Highly Unlikely	6 (18%)	Alaska, Delaware, Nebraska, New Hampshire, Oregon, Rhode Island
Cannot Predict	7 (21%)	Arkansas, Iowa, Michigan, North Carolina, Vermont, Washington, Wisconsin

§ Performance Reporting

Performance reporting appears to encourage, but does not guarantee the adoption of performance funding or performance budgeting. It operates on the assumption that merely publishing information on the results achieved by public colleges and universities will improve their performance. When this information becomes available, it seems a logical step to use it in funding or budgeting. Thirty states (60%) currently have performance reporting. Eleven (69%) of the 16 states with performance funding have performance reporting. Sixteen (70%) of the 23 states with performance budgeting have performance reporting. Five (56%) of the nine states with both programs have performance reporting.

The projections about future adoption of performance funding and budgeting seem to support the conclusion that the existence of performance reporting stimulates interest in adopting each program. Eight (89%) of the nine states considered as likely to adopt performance funding have performance reporting. Nine (75%) of the 12 states projected as likely to initiate performance budgeting also have performance reporting. The states labeled as unlikely to adopt performance funding and budgeting had much lower percentages of performance reporting. Only three (38%) of the states believed unlikely to adopt performance budgeting and half of those considered unlikely to accept performance funding had performance reporting. Moreover, 13 (76%) of the 17 states that are forecasted to have both performance funding and budgeting in the next five years now have performance reporting. Clearly, a connection seems to exist between performance reporting and performance budgeting and funding. Having performance reporting does not ensure performance budgeting or funding, but both programs are less likely without it.

§ The Future

The introduction of programs linking state resources to campus results seems more likely than projected last year, despite the signs of instability. Thirty states (60%) currently have at least one of the two programs, up from 26 (52%) last year. The 1998 Survey forecasted that 35 (70%) states might have one of the two programs in the next five years. The increase of four states with at least one of the two performance programs achieved 44 percent of that prediction in a single year. The

1999 Survey suggests that 38 (76%) states are likely to have at least one of the programs in the next five years. The results confirm the growing interest in linking some state resources to campus results on designated indicators. The real question is whether the link will be loose as in performance budgeting or tight as in performance funding.

The 1999 Survey shows that 23 (46%) states had performance budgeting; and 16 (32) had performance funding. It projects that 31 (62%) states are likely to have performance budgeting in the next five years. Respondents also estimate that 24 states (48%) are likely to have performance funding. These figures forecast an increase of eight new programs for both performance funding and performance budgeting in the next five years. The projections seem surprising given the continued volatility of performance funding and the new instability in performance budgeting. Despite the instability, the results indicate increased interest in both programs.

Last year's prediction of many more states adopting both performance funding and budgeting has not occurred. The 1998 Survey found that eight states had both programs and suggested that 19 seemed likely to have both in the next five years. The report claimed this combination could represent an emerging trend. The results in 1999, however, reveal that only one more state had both programs. The 1998 forecasts proved largely correct on new adoptions but overestimated the number of states that would continue both programs. In the 1999 Survey, SHEFOs or their alternates say that 17 states are likely to have both programs in the next five years. Although this projection is lower from last year, it suggests that more than a third of the states are likely to have both programs.

§ Conclusion

The findings from the Third Annual Survey confirm some but not all of the earlier conclusions and suggest some new developments:

- Performance funding continues to spread but also shows continued instability;
- Performance budgeting is also spreading, but for the first time also shows some instability;
- Most new initiatives in performance funding and budgeting come from coordinating and system boards rather than legislative mandates;
- The practice of prescribing performance indicators is declining;
- Many of the new initiatives in both programs trade added accountability for improved performance and productivity for increased autonomy over personnel, budgets, and tuition revenues;
- Future adoption of either program appears somewhat less likely than in 1998;
- The prediction in 1998 that many states would have both performance funding and budgeting is not supported by this year's results;
- For the first time, college and university systems have initiated performance funding without actions from state government or higher education commissions;
- Most new programs in performance funding seek specific improvements in campus performance rather than the systemic reform of higher education sought in many of the early initiatives;

- All of the performance funding programs now limit the allocations for performance;
- The new efforts in both performance funding and budgeting allow more time for program design and provide for phased implementation.

It is still too soon to tell whether performance budgeting and performance funding represent fads or trends. But one conclusion is becoming clear. Some form of linking a small share of state resources to campus performance is beginning to look like a trend. Three years of survey findings suggest that performance is likely to count somehow in state funding of public colleges and universities. Public higher education has become too important to the economic success and general welfare of states and their citizens to fund public campuses solely on resource inputs and ignore institutional results. Taxpayers are unlikely to accept the notion that performance should count in all endeavors except state budgeting for higher education.

The spread of both performance budgeting and funding in two years supports these statements. Although the Surveys suggest that performance will count, answers to two questions remain in doubt. Will the link between funding and performance be loose or tight? And will coordinating boards and university systems adopt their own programs or await the imposition of mandates made for all state agencies? The Fourth Annual Survey next year may provide clues if not answers to these questions.

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Appendix

SURVEY OF STATE HIGHER EDUCATION FINANCE OFFICERS PERFORMANCE FUNDING AND BUDGETING

June 1999

STATE: _____

Definitions:

Performance Funding: state funding tied directly to the *achievements* of public colleges and universities on specific performance indicators (money awarded after performance achieved).

Performance Budgeting: state governments use indirectly reports of system or institutional achievements on performance indicators as a context in shaping the total budget for public higher education and/or its institutions (indirect influence on budget levels).

1. Does your state currently have performance funding for public colleges or universities?

Yes ☐ No ☐

If yes:

A. When was performance funding adopted: month _____ year _____

B. Was it mandated in legislation? Yes ☐ No ☐

C. Were the indicators prescribed in legislation? Yes ☐ No ☐

D. What individual or group(s) initiated performance funding?

Governor ☐

Legislature ☐

Coordinating board or agency ☐

University system(s) ☐

Other (please specify) _____

2. Does your state currently have performance budgeting for public colleges and universities?

Yes ☐ No ☐

If yes:

A. When was performance budgeting adopted: month _____ year _____

B. Was it mandated in legislation? Yes ☐ No ☐

C. Were the indicators prescribed in legislation? Yes ☐ No ☐

D. What individual or groups initiated performance budgeting?

Governor ☐

Legislature ☐

Coordinating board or agency ☐University system(s) ☐

Other (please specify) _____

3. Is performance budgeting in your state for other state agencies as well as higher education?

Yes ☐ No ☐

If no current performance funding or performance budgeting in your state for public higher education:

4. Has your state ever had performance funding for public colleges or universities?

Yes ☐ No ☐

If yes:

Date adopted _____

Date abandoned _____

Why abandoned _____

5. Has your state ever had performance budgeting for public colleges or universities?

Yes ☐ No ☐

If yes:

Date adopted _____

Date abandoned _____

Why abandoned _____

6. If there is **no** performance funding for public higher education, how likely is it that your state will adopt it in the next five years?

Highly likely ☐ Likely ☐ Unlikely ☐ Highly unlikely ☐ Cannot predict ☐

7. If there **is** performance funding for public higher education, how likely is it that your state will continue it over the next five years.

Highly likely ☐ Likely ☐ Unlikely ☐ Highly unlikely ☐ Cannot predict ☐

8. If there is **no** performance budgeting for public higher education, how likely is it that your state will adopt it in the next five years?

Highly likely ☐ Likely ☐ Unlikely ☐ Highly unlikely ☐ Cannot predict ☐

9. If there **is** performance budgeting for public higher education, how likely is it that your state will continue it over the next five years?

Highly likely ☐ Likely ☐ Unlikely ☐ Highly unlikely ☐ Cannot predict ☐

10. Does your state have performance reporting for public colleges and universities?
Yes ☐ No ☐
If yes,
Date adopted _____
If no, how likely is it that your state will adopt it in the next five years?
Highly likely ☐ Likely ☐ Unlikely ☐ Highly unlikely ☐ Cannot predict ☐

Exclusive Performance Budgeting Questions

11. Does the performance budgeting program earmark a certain dollar figure or percent of state support for allocation to colleges and universities?
Yes ☐ No ☐
12. Are reports of the performance of public colleges or universities on a list of indicators normally submitted to the governor's budget office as part of the budget process?
Yes ☐ No ☐
13. Are reports of the performance of public colleges or universities on a list of indicators submitted to legislative committee(s) as part of the budget process?
Yes ☐ No ☐
14. Do higher education officials normally discuss the performance of public colleges and universities with officials in the executive branch as part of the budget preparation process?
Yes ☐ No ☐
15. Does the Governor's budget proposal to the Legislature normally refer to the performance indicators or performance reports?
Yes ☐ No ☐
16. Are the performance indicators or reports normally discussed in legislative budget hearings?
Yes ☐ No ☐
17. Does the appropriations act or related budget documents normally refer to the performance indicators or performance reports?
Yes ☐ No ☐

18. Do the coordinating and/or system governing boards consider performance reports in the allocation of resources to colleges or universities?

Yes ☐ No ☐

19. How would you describe the actual effect of performance budgeting in your state on the funding of public colleges and universities?

Large effect ☐ Moderate effect ☐ Little effect ☐ No effect ☐
Cannot determine the effect ☐

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